

HIGHLIGHTS & ANALYSIS OF THE GOVERNOR'S BUDGET

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January 12, 2001

Table of Contents

Overview

Expenditure Summary.....	4
General Fund Expenditures During The First Three years Of the Davis Administration.....	5
FIGURE 1: <i>General Fund Increases by Category During the Davis Administration</i>	5
Economic Forecast.....	6
Governor's Budget General Fund Revenue Forecast.....	6
A. Personal Income Tax	
B. Sales and Use Tax	
C. Bank and Corporation Tax	
TABLE 1: <i>Governor's Budget General Fund Forecast</i>	8
Tax Relief.....	8
State Appropriations Limit (SAL).....	9
Reserve for Economic Uncertainty.....	10

Education

Higher Education	
A. University of California.....	11
B. California State University.....	12
C. California Community Colleges.....	12
D. California Student Aid Commission.....	13
K-12 Education	
A. Proposition 98 Overview.....	13
B. Funding Overview.....	13
C. Governor's Initiatives.....	13
D. Other Major Adjustments.....	14

Public Safety and Judiciary

A. Judicial Branch.....	16
B. Trial Courts.....	17
C. Department of Justice.....	17
D. Department of Corrections.....	18
E. Department of Youth Authority.....	19
F. Office of Criminal Justice Planning.....	19
G. Citizens Options for Public Safety.....	20
H. Technology Grants for Local Law Enforcement.....	20

Transportation, Resources and Environment

Transportation.....	21
Resources.....	22
Environment.....	24

Health and Human Services

FIGURE 2: <i>General Fund Health & Welfare Expenditures</i>	26
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Health

A. Provider Rate Increases.....	27
B. Tobacco Settlement.....	27
C. Healthy Families Program.....	28
D. Medi-Cal.....	28
E. Nursing Homes.....	29
F. Health Insurance Portability and Accountability Act (HIPAA).....	30
G. Mental Health.....	30
H. Developmental Services.....	31

Human Services

A. Department of Alcohol and Drug Programs.....	32
B. Department of Community Services Development.....	32
C. Employment Development Department.....	32
D. Department of Child Support Services.....	33
E. Department of Social Services.....	34

General Government and Local Government

A. Elimination of Vacant Positions.....	35
B. Governor's Tax Relief Proposals.....	36
C. Other Departments.....	38

Infrastructure and Bond Debt Service.....44

Appendix 1: General Fund Expenditure Growth By Budget Category.....48

Appendix 2: Joint Republican Proposals vs. Governor's Budget.....49

Appendix 3: Final Tax Package-Budget Act of 2000.....51

Consultant Staff Contacts.....52

OVERVIEW

Following two budgets that increased state government spending at record levels, the 2001-02 Governor's Budget provides a more modest, 5-percent growth, largely due to an anticipated slowing of the rate of growth of the economy. The Budget proposes large increases for K-12 education and Health and Human Services programs. While California's tax burden is now higher than it was prior to the enactment of Proposition 13, the budget provides only modest tax relief, only a small amount of which is targeted at working families. The Budget includes a \$1 billion set-aside for the energy crisis, but provides few specifics about how the set-aside will be used. Finally, the Budget makes no new permanent commitment to pay-as-you go infrastructure financing from the General Fund.

EXPENDITURE SUMMARY

The Governor's Budget for fiscal year 2001-02 proposes spending \$104.7 billion from all funds, which represents an increase of \$5.3 billion, or 5 percent over the amount provided in the 2000 Budget Act.

Of the total proposed, \$82.9 billion is from the General Fund, which represents an increase of \$4.1 billion, or 5 percent compared to the 2000 Budget Act. The largest General Fund increase is proposed for K-12 Education, which would increase by \$1.9 billion, or 6 percent, followed by Health and Human Services at \$1.4 billion, or 7 percent. (*See Appendix 1 for additional detail*).

Of the total spending proposed in the Governor's Budget, \$3.7 billion is for one-time purposes and set-asides. Major one-time items include:

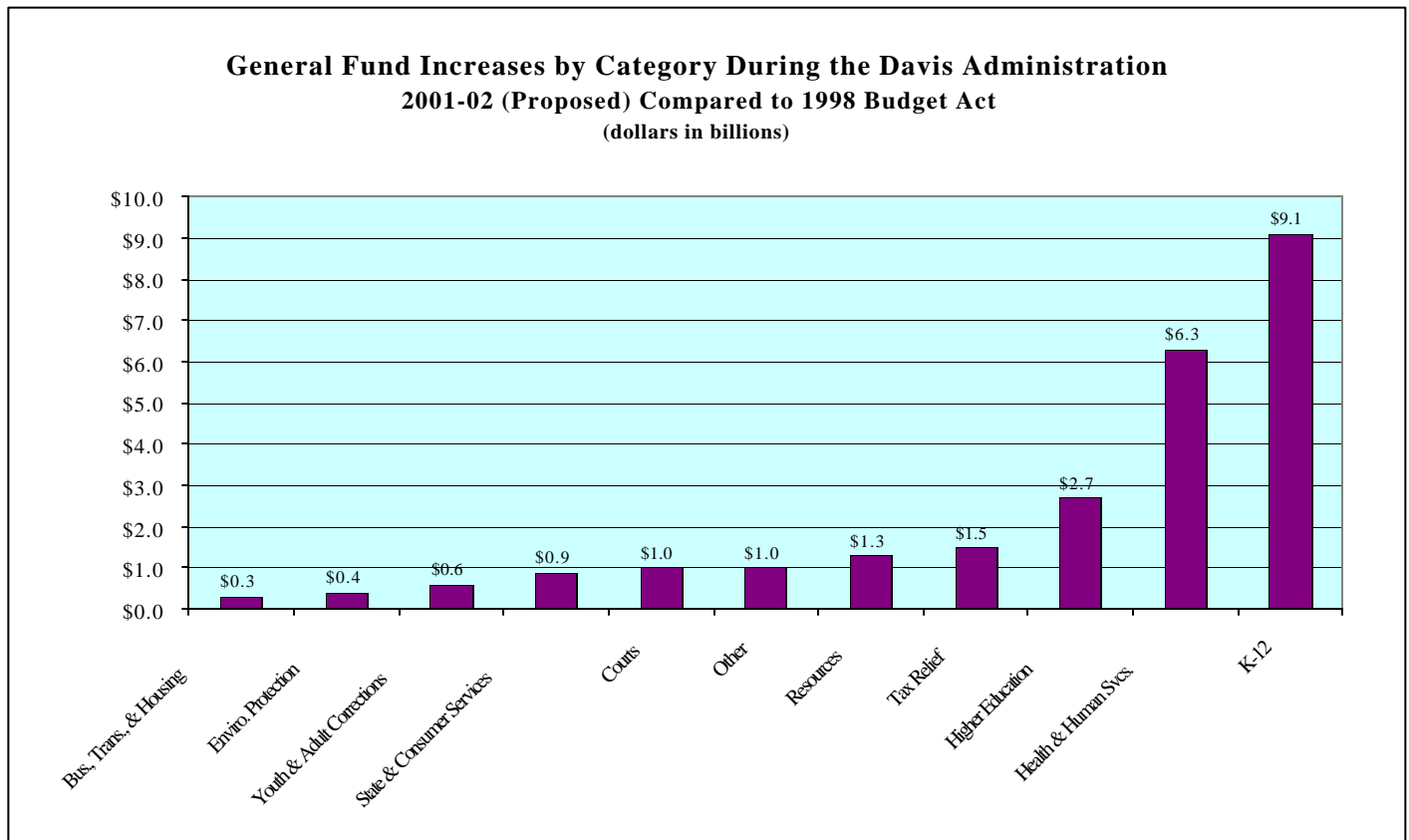
- \$1 billion set-aside for various energy issues
- \$772 million for various capital outlay projects (excluding transportation)
- \$250 million for local government fiscal relief
- \$200 million for the Jobs Housing Balance Improvement Program
- \$118 million to continue and expand local flood control subventions
- \$100 million for the Diesel Engine Replacement Program
- \$100 million for the Clean Beaches Initiative
- \$156 million added to the reserve (as compared to 2000 Budget Act)
- \$500 million set-aside for legal contingencies.

GENERAL FUND EXPENDITURE GROWTH DURING THE FIRST THREE YEARS OF THE DAVIS ADMINISTRATION

The 5-percent increase proposed for 2001-02 represents a significant reduction in the rate at which General Fund expenditures have grown as compared to the 1998 Budget Act. In 1999-2000, the first budget year of the Davis Administration, General Fund spending increased by 16 percent. The 2000 Budget Act funded an additional 18-percent increase and the Governor's Budget for 2001-02 would result in an aggregate increase for the first three years of the current administration totaling \$25 billion, or 43 percent.

Figure 1 displays this 3-year growth in General Fund expenditures by major program category. As the figure shows, the largest increases are \$ 9.1 billion (39 percent) for K-12 Education, \$6.3 billion (41 percent) for Health and Human Services, \$2.7 billion (36 percent) for Higher Education, and \$1.5 billion (150 percent) for Tax Relief. (The major component of the increase for Tax Relief is the Vehicle License Fee reduction enacted under the previous administration and accelerated in the last two budgets; The Budget displays this as a spending increase rather than a revenue reduction because the state reimburses local government for their revenue losses.)

Figure 1



ECONOMIC FORECAST

National Economy

In 2000, the national gross domestic product (GDP) exceeded five percent, which was the largest gain in 16 years and capped a record-breaking ninth year of sustained economic growth. However, the last quarter of 2000 revealed that the national economy is slowing down. November retail sales declined unexpectedly, following a flat October report; consumer confidence dropped sharply in November and early December, and several personal computer makers reported disappointing holiday season sales. Recent labor reports indicate that there is a rise in initial unemployment claims, a sharp drop in factory orders, and announcements of production cutbacks from major U.S. automakers. Add to this a poor year for the U.S. stock market, and the signs of an economic slowdown are clear, although mainstream economic forecasters still do not predict a national recession (defined as two consecutive quarters of negative GDP growth). In early December 2000, Federal Reserve Chairman Alan Greenspan made it clear that the central bank was prepared to relax monetary policy in response to the shift in economic momentum and the Fed cut interest rates by one half of 1-percent in January. Although a mild recession remains a risk, the most likely outcome remains a “soft landing,” with growth moderating to a more sustainable pace in 2001.

California's Economy

Available economic and financial statistics for California have yet to significantly reflect the slowing national economy. California job growth strengthened over the summer and fall of 2000, while nationwide data reveal a marked slowing in new hiring and a rise in jobless indicators. Non-farm employment increased 3.6-percent in 2000, the largest gain since 1985 and nearly double the nation's 2-percent rise. Sales tax receipts were also very strong in 2000. Because of these factors, California's economy significantly outpaced the strong national performance in 2000. Personal income rose more than 11-percent, which is considerably more than the nation's 6.5-percent increase. A significant component of this personal income growth is directly related to the exercise of stock options and realization of capital gains. The State also continues to benefit from strong economic growth in much of Asia, Mexico and Europe. Through the first three-quarters of 2000, California-made exports increased more than 21 percent over comparable 1999 shipments. It appears that strong foreign demand for California products is reducing the effects of the U.S. slowdown.

A significant risk to the California outlook comes from the energy sector. The current electric power situation results from a complex set of circumstances arising from a steep rise in demand throughout the Western United States, sharply higher natural gas prices exacerbated in California by the break in a key pipeline last summer, and a dysfunctional wholesale electricity market in which prices have soared. This could explain why the Administration's economic forecast assumes a slow down in non-farm job growth in 2001 from 3.6-percent to about 2-percent.

GOVERNOR'S BUDGET GENERAL FUND REVENUE FORECAST

The Administration's revenue forecast reflects California's strong economic growth, but revenue growth is forecast to slow in 2001-02. The budget estimates General Fund revenues for the 2000-01 and 2001-02 fiscal years of \$76.9 billion and \$79.4 billion, which is \$3 billion and \$5.6 respectively *more* than the 2000 Budget

Act forecast. The revenue forecast has been reduced by \$108 million in 2001-02 to reflect the Governor's new tax relief proposals (see tax relief discussion below) and reduced by \$468 million to reflect a different accounting of tobacco settlement revenue. The total of all revenues, including special funds, will reach approximately \$97 billion in 2001-02.

Over 56 percent of the General Fund revenues are from the personal income tax (PIT). The main component driving the large increases in PIT revenue are the exercise of employee stock options and the realization of capital gains. The revenue forecast assumes significantly lower rates of growth in stock options and capital gains in 2001-02. The General Fund revenue estimate also reflects the impact of tax relief legislation phase-in that was enacted in the last two budgets.

After the aforementioned tobacco settlement and tax relief revenue adjustments, the Administration's revenue estimate is about \$2.4 billion less than the revenue projection made by the Legislative Analyst Office in November of 2000. Of this reduced amount, about \$800 million is in the current fiscal year (2000-01) and \$1.6 billion is in the budget year (2001-02). The reduced revenue estimate reflects the fact that the Administration had more current data upon which to base its estimate than the LAO had in November. The primary difference in the estimates is related to lower personal income tax estimates.

The General Fund revenue estimate includes the following main components:

➤ **Personal Income Tax**

This is the most significant component of General Fund revenue, comprising over 56 percent of the General Fund. The budget anticipates PIT revenue to increase by 9.4 percent in 2000-01, for a total of \$43.3 billion and 3.5 percent in 2001-02 for a total of \$44.8 billion. Realized capital gains and exercised employee stock options are a major component of the PIT growth. Based on the assumption that stock market growth will continue to moderate, the Administration's forecast assumes that capital gains and stock option PIT revenue will decline 10 percent in 2001.

➤ **Sales & Use Tax:** Sales and Use Tax is the second largest component of General Fund revenue and comprises about 29 percent of the total. The forecast includes a reduction of \$553 million in 2000-01 and \$600 million in 2001-02 related to the ¼-cent reduction effective January 1, 2001 (see below). Taxable sales for 2000 are forecast to be up 11.3 percent as compared to 1999 and up 4.9-percent in 2001. The forecast assumes that the growth in taxable sales will be broadly based affecting most sectors of the economy.

➤ **Bank and Corporate Tax:** Bank and Corporate tax revenues are expected to contribute 8.7 percent to the General Fund. The current rate is 8.84 percent placing California in the top 15 state's in corporate tax burden. The forecast assumes relatively flat revenue growth in this category.

TABLE 1

GOVERNOR'S BUDGET GENERAL FUND FORECAST

	2000 Budget Act	Governor's Budget 2001-02	Change Between Forecasts
Fiscal Year 1999-00			
Personal Income Tax	\$39,136	\$39,575	\$439
Sales & Use Tax	\$20,884	\$21,137	\$253
Bank & Corporate Tax	\$6,655	\$6,639	-\$16
Other Revenues & Transfers	\$4,487	\$4,580	\$93
Total	\$71,162	\$71,931	\$769
<i>Change from 1998-99</i>	---	\$13,316	
<i>% change from 1998-99</i>	---	22.7%	
Fiscal Year 2000-01			
Personal Income Tax	\$41,266	\$43,305	\$2,039
Sales & Use Tax	\$21,378	\$21,980	\$602
Bank & Corporate Tax	\$6,800	\$6,865	\$65
Other Revenues & Transfers	\$4,412	\$4,749	\$337
Total	\$73,856	\$76,899	\$3,043
<i>Change from 1999-00</i>	---	\$4,968	
<i>% change from 1999-00</i>	---	6.9%	
Fiscal Year 2001-02			
Personal Income Tax	---	\$44,810	\$3,544
Sales & Use Tax	---	\$23,441	\$2,063
Bank & Corporate Tax	---	\$6,931	\$131
Other Revenues & Transfers	---	\$4,252	-\$160
Total		\$79,434	\$5,578
<i>Change from 2000-01</i>	---	\$2,535	
<i>% change from 2000-01</i>	---	3.3%	

TAX RELIEF

Despite revenue increases of almost \$8.5 billion since 1999-00, the Governor's Budget includes only very modest tax relief of \$108 million, and practically no tax relief for working families. The tax relief proposed in the Governor's Budget is:

- **Back to School Sales Tax Holiday:** This proposal is estimated to provide \$27 million in tax relief to California citizens in 2001-02.

- **Increasing the Manufacturers' Investment Credit to 7 percent:** This increase is expected to provide additional credits of \$70 million in 2001-02 fiscal year, \$90 million in 2002-03, and \$95 million in 2003-04. *This proposal is similar to the Joint Republican proposal to increase the credit to 8 percent.*
- **Extending the Sunset for the Manufacturers' Investment Credit and Exemption:** No fiscal impact in 2001-02.
- **Adding Software Developers to the Manufacturers' Investment Exemption:** This proposal will provide \$500,000 in additional credits in 2001-02.
- **Space Launch Exemption:** Expansion of this exemption will provide additional credits of \$6.3 million in 2001-02, \$2.6 million in 2002-03, and \$0.8 million in 2003-04. *This proposal is similar to the Joint Republican Proposal.*
- **Increasing the Capital Gains Exclusion for Small Business Stock:** The fiscal impact is expected to be about \$30 million annually beginning in 2006-07.
- **Employer Transit Pass Credit:** This proposal is estimated to provide \$3 million in credits in 2001-02, \$3 million in 2002-03, and \$4 million in 2003-04.
- **Loaned Teacher Credit:** This proposal is estimated to provide about \$1 million in credits per year. *This proposal is similar to the Joint Republican Proposal.*

A more detailed description of these proposals is included in the General Government section of this report.

STATE APPROPRIATIONS LIMIT (SAL)

Article XIII B of the State Constitution was enacted by the passage of Proposition 4 (enacted in a special election held in November, 1979). When Proposition 4 passed, it created the "Gann Limit" or State Appropriations Limit (SAL) which limits the level of tax-funded appropriations which can be made by the State and individual local governments in any one fiscal year. The Gann Initiative was a companion measure to Proposition 13, which was enacted one year earlier in 1978. State fiscal year 1978-79 is the base year for the SAL. It has been updated every year for inflation, population growth and related factors. Only tax revenues are included in the SAL calculation and various adjustments and exclusions are also incorporated into the calculation. For example, Proposition 98 funds are excluded from the SAL, direct capital outlay appropriations are excluded from the SAL, and debt service and revenue transfers to local government are also excluded from the SAL calculation.

Current Revenues And The SAL

The 2001-02 Governor's Budget calculates the SAL for 2000-01 at \$54.1 billion and appropriations subject to the limit at \$50.4 billion. For 2001-02, the SAL is \$58.9 billion and appropriations subject to the limit \$53.5 billion. Thus, assuming the Governor's revenue estimates are accurate, there is approximately \$3.66 billion and

\$5.4 billion in "room" under the limit in the current year and budget year respectively. If state tax revenues increase this Spring in the Governor's May Revision, the SAL could become a major factor in the final budget debate. If the Legislature and Governor could not agree on how to dispense with the SAL overage, the portion of the carryover that could not be appropriated in the subsequent fiscal year would then be considered "excess revenues" under the SAL, and 50 percent of any such excess revenues would be diverted to Proposition 98-funded programs, with the balance being returned to taxpayers.

RESERVE FOR ECONOMIC UNCERTAINTY

The Joint Republican Caucus Priorities announced in December of 2000 included funding the General Fund Reserve for Economic Uncertainty at the 3-percent level. According to the LAO, this level of reserve would be approximately \$2.5 billion.

The Governor's Budget proposes a reserve of \$5.85 billion in 2000-01 and \$1.94 billion in 2001-02 which is 7.6-percent and 2.4-percent respectively. In addition to the \$1.94 billion reserve in 2001-02, the budget also sets aside \$500 million for legal contingencies. The budget year reserve estimate is important from the standpoint of determining whether or not the temporary suspension of the 1/4 cent sales tax will remain intact. The Joint Republican Caucus Priorities include making the 1/4 cent sales tax reduction permanent. Unless this Republican proposal is enacted statutorily, the continuance beyond December 31, 2001 of the reduction will depend on the size of the General Fund reserve (see discussion below). *The Governor's Budget does NOT assume that the 1/4 cent reduction will continue in 2002.*

1/4 Cent Sales Tax Reduction Background

In 1991, the State faced budget deficits of over \$14 billion. To address this dramatic shortfall in State revenues, a series of expenditure reductions and revenue increases were enacted as part of the final budget agreement between Governor Wilson and the Democratically controlled Legislature. One of the revenue increases was a 1/4 cent sales tax increase which generated revenue for the State General Fund in the amount of about \$700 to \$800 million. This increase included a provision that would require the 1/4 cent increase to sunset under specified conditions.

The sunset provision is complex. In November of each calendar year, the Director of Finance is required to make a finding regarding the size of the General Fund reserve. If the Director finds that the State ended the previous fiscal year with a reserve of 4 percent or more, *and* if the Director finds that the State will end the current fiscal year with a reserve of 4 percent or more, then the 1/4 cent sales tax is eliminated effective January 1st and remains eliminated unless and until the Director makes a subsequent finding in November of a future year that the 4-percent reserve level will not be maintained. If that happens, the 1/4 cent sales tax is reinstated on January 1 following the subsequent finding.

Currently, the total value of tax relief associated with the 1/4 cent reduction in sales tax is approximately \$1.2 billion which will be spread out over two state fiscal years: 2000-01 and 2001-02.

EDUCATION

The Joint Republican Caucus Priorities propose investing \$1 billion in school construction. Despite the availability of significant amounts of "one-time" General Fund dollars in recent years, none of this surplus has yet been allocated for school construction. The Governor's Budget revenue estimates show that the state will again have substantial one-time funds --\$3 billion-- yet it proposes none of these funds for school construction.

Republicans have also proposed to keep the commitment made in Proposition 98 and its implementing legislation to provide community colleges with 11 percent of Proposition 98 funds. Over the last 10 years, this requirement has been set aside, and community colleges were allocated only 10.3 percent of the Proposition 98 "split" in 2000-01. Republicans recognize that community colleges provide a multitude of educational and training services to a wide array of Californians and will be expected to do even more in coming years.

Governor's Budget Highlights

HIGHER EDUCATION

University of California

The budget proposes \$9.4 billion (including \$3.4 billion General Fund) for the University of California (UC) in 2001-02, which reflects an increase of \$331.3 million (\$202.5 million General Fund), or 5.3 percent above 2000-01.

The major proposed increases are:

- \$119.7 million to fund a 4-percent increase in UC's General Fund base, pursuant to the Higher Education Partnership.
- \$52.2 million to fund enrollment growth of 3.5-percent, or 5,700 additional students.
- \$29.9 million to fund the third year of a four-year plan to provide funding for shortfalls in core needs such as building maintenance, technology, and library materials.
- \$21.5 million to buyout a 4.9-percent fee increase that would otherwise be passed through to students.
- \$20.7 million to support summer instruction at the Berkeley, Los Angeles, and Santa Barbara campuses.
- \$162.4 million (including \$2 million in one-time funds) for construction of the initial infrastructure and for start-up costs for UC Merced, scheduled for a Fall 2004 opening.
- \$33 million for the first year of a three-year funding plan for an additional Institute for Science and Innovation at UC Berkeley, focusing on information technology.
- \$203.3 million in Proposition 1A bond funds for various capital outlay projects.

California State University

The budget proposes \$5.1 billion (including \$2.6 billion General Fund) for the California State University (CSU) in 2001-02, which reflects an increase of \$218.6 million (\$215.9 million General Fund), or 7.0 percent above 2000-01.

The major proposed increases are:

- \$93.5 million to fund a 4-percent increase in CSU's General Fund base, pursuant to the Higher Education Partnership.
- \$55.7 million to fund enrollment growth of 3 percent or 8,750 additional students.
- \$23.4 million to fund the third year of a four-year plan to provide funding for shortfalls in core needs such as building maintenance, technology, and library materials.
- \$16.6 million to buyout a 4.91-percent fee increase that would otherwise be passed on to students.
- \$12.4 million to fund summer instruction at the San Diego, Fullerton, Long Beach, and San Francisco campuses.
- \$10 million to enhance specific academic programs, such as agriculture, engineering, computer science, and nursing.
- \$18.5 million for the Governor's K-12 Technology Training Initiative.
- \$17.5 million to fund 1,000 Governor's Teaching Fellowships.
- \$207 million for new and continuing capital outlay projects, funded from Proposition 1A bond funds.

California Community Colleges

The budget proposes \$6.2 billion (\$3.0 billion General Fund, \$1.8 billion local property tax, \$217.9 million federal funds, \$137.2 million lottery funds, and \$999.2 million in other state and local funds) in 2001-02 for the California Community Colleges (CCC), which reflects an increase of \$447.4 million and 7.7-percent over 2000-01. Total community college Proposition 98 funding is 10.27-percent of the Proposition 98 split, which amounts to 0.73 percent and \$331 million *below* the statutorily required 11 percent split.

The major proposed increases are:

- \$111.9 million to fund a 3-percent (30,870 FTES) growth in enrollment.
- \$153.7 million to fund a 3.91-percent COLA.
- \$62 million for community college districts to make part-time faculty salaries more comparable to full-time faculty salaries.

- \$11 million to assist districts in proving access to Cal Grants.
- \$10 million for districts to replace obsolete or inadequate equipment and instructional materials.
- \$10 million for scheduled maintenance and special repairs.
- \$7.9 million (including \$3.2 million in one-time funds) to expand part-time faculty office hours.
- \$5 million to increase regional economic development collaboratives.
- \$143.6 million for capital outlay from Proposition 1A bond funds.

California Student Aid Commission

The budget proposes \$631.5 million General Fund for Cal Grants in 2001-02, which reflects an increase of \$127.9, or 25-percent above 2000-01. This increase is driven largely by SB 1644 (Ortiz and Poochigian), which guarantees a Cal Grant for low- and middle-income students who demonstrate merit in high school or community college.

PROPOSITION 98 OVERVIEW

The budget proposes \$46.4 billion in Proposition 98 funding for K-12 and community colleges (\$32.8 billion General Fund and \$13.6 billion local property tax) in 2001-02, which reflects an increase of \$3.5 billion over the revised 2000-01 level. This represents a policy decision to fund Proposition 98 at the Test 2 level, rather than the Test 3 level required. Funding at Test 2 results in \$1.9 billion overappropriation.

For the 2000-01, Proposition 98 funding is proposed to increase by \$40.4 million over the 2000 Budget Act amount due to chaptered legislation (\$8.5 million), increases in average daily attendance (\$8.5 million), and miscellaneous adjustments (\$1.3 million), offset by increased property tax receipts. The adjusted 2000-01 overappropriation is \$555.1 million.

K-12 – FUNDING OVERVIEW

The budget proposes \$53.3 billion (\$32.2 billion General Fund, \$11.9 billion local property tax, \$4.8 billion federal funds, \$3.6 billion other state and local funds, and \$827 million lottery funds) in 2001-02 for K-12 education, which reflects an increase of \$2.9 billion and 5.8-percent over the revised 2000-01 level. This funding represents a K-12 *Proposition 98* per pupil (average daily attendance) expenditure level of \$7,174, and a *total* K-12 per pupil expenditure level of \$9,267 in 2000-01.

K-12 – GOVERNOR’S INITIATIVES

- \$100 million for the first year of a three-year phase-in of a program to increase the school year by 20 instructional days for all pupils in grades 7 and 8 and *either* of grades 6 or 9. The administration will introduce legislation to fund this program at \$450 million for the second year and \$900 million for the third year.

- \$335 million for the first year of a three-year program to provide professional development in reading or mathematics for all teachers.
- \$15 million for the first year of a three-year program to train principals and vice principals in management and instructional leadership.
- \$30 million for incentives to school districts to attract and retain algebra teachers, including providing salary differentials, training, and reducing class loads.
- \$27.5 million for workbooks to be used with the statewide assessment and the high school exit exam.
- \$20 million for 10 new High Tech High Schools selected through a competitive grant process administered by the Office of the Secretary for Education.
- \$20 million for half-year expansion of the after school program, targeted to middle schools.
- \$20 million as incentives for school districts to purchase software to assist in their analysis of results on the statewide assessment.
- \$5 million to establish a system to monitor student-level scores on the statewide assessment, allowing for tracking the student's performance even if they change schools or school districts.
- \$5 million for an incentive for businesses, education agencies, and community organizations to promote student interest and participation in mathematics and science.

K-12 – OTHER MAJOR ADJUSTMENTS

- \$1.04 billion for school district and county office of education COLAs.
- \$323.6 million to fund school district and county office of education enrollment growth.
- \$210.9 million to fund various categorical program growth and COLA.
- \$126.5 million to fund a COLA for special education programs.
- \$270 million in one-time funding to fund the special education mandate claim settlement.
- \$125 million to fund the special education mandate claim settlement.
- \$103.5 million in federal funds for special education.
- \$123 million to fully fund the Governor's performance awards in 2001-02. This is intended to fully fund the \$150 per pupil award amount which was funded at only \$68 per pupil in the current year.

- \$88.2 million for the immediate intervention/underperforming schools program, including \$21.5 million for a third cohort of schools.
- \$53.8 million in one-time savings for transfer to the Child Care Facilities Revolving Loan Fund.
- \$45 million for three administrations of the high school exit exam to develop valid cut scores.
- \$41.7 million increase for Stage 3 CalWORKs.
- \$40 million to annualize the current year increase for full-day General Child Care for 0-5 year-olds.
- \$45.5 million (\$36.3 million Proposition 98, \$9.2 million federal funds) for a state-subsidized child care program COLA.
- \$5.4 million to assist child care contractors fund increased minimum wage costs.
- \$23.8 million to annualize the current year expansion of State Preschool programs.
- \$16.4 million to fund a COLA for supplemental instruction.
- \$10 million in one-time funding for Regional Occupational Centers and Programs equipment.
- \$8.8 million to fund the statutorily required one-half of 1-percent state match for deferred maintenance.

PUBLIC SAFETY AND JUDICIARY

On November 28, 2000, Senate and Assembly Republicans announced their 2001-02 fiscal year budget priorities in the area of public safety. These proposal, which amounted to \$710 million, consisted of the following:

- **Local Detention Facilities:** \$400 million to construct, renovate, or expand local jails and juvenile detention facilities with a priority given to counties under court-ordered population caps;
- **Local Crime Labs:** \$200 million to construct, renovate and/or equip local crime labs;
- **Technology Grants:** \$100 million for technology grants, with minimum allocations of \$150,000 to each city police chief and county sheriff and the balance of the funds allocated to these entities on a per-capita basis; and
- **Project Exile:** \$10 million for allocation to assist District Attorneys in establishing strike teams to investigate and prosecute criminals who illegally possess and/or use firearms, including federal prosecution when appropriate.

In response to the Republican public safety proposals, the Governor has included the following in his 2001-02 Budget:

- **Local Crime Labs:** \$30 million (one-time) to OCJP for allocation as competitive grants to local law enforcement agencies for construction and for facilities and equipment upgrades of local crime labs.
- **Technology Grants:** \$75 million (one-time) allocated on a per-capita basis, with minimum grants of \$100,000 to local law enforcement agencies for the purchase of high technology equipment to enhance public safety. As a condition of receiving these funds, each recipient will be required to report on how the funds were used and the effect of those uses on local public safety.

Governor's Budget Highlights

Judicial Branch

The budget proposes \$351.2 million (\$297.9 million General Fund and \$53.3 million in various special funds) for the Judiciary in 2001-02, which reflects an increase of approximately \$20 million over the current year.

The major proposed increases are:

- \$5 million to augment the Judicial Council's Equal Access Fund which distributes funds to non-profit legal assistance organizations to provide legal assistance in civil matters to low-income parties in need of legal representation. With this augmentation, annual expenditures for this program will total \$15 million.
- \$2.8 million for the Judicial Council to address workload issues and assistance to the trial courts.

- \$2.6 million to fund workload and equipment needs of the Supreme Court.
- \$2.2 million for the Judicial Council to help trial courts implement the requirements of the Trial Court Employee Governance and Protection Act pursuant to Chapter 1010, Statutes of 2000.
- \$1.9 million to fund a permanent audit program within the Judicial Council to provide fiscal examination and verification of trial court fiscal records and operations.

Trial Courts

The budget proposes \$2.2 billion (\$1.2 billion General Fund and \$1.0 billion in various special funds) for the State Trial Courts in 2001-02, which reflects an increase of \$110 million over the current year.

The major proposed increases are:

- \$22.5 million to support additional staffing, service level cost increases, and equipment for trial court security and perimeter protection of court facilities.
- \$8.1 million to fund the increased costs of services provided to the trial courts by their respective counties.
- \$7.5 million for additional court-appointed counsel for juvenile dependents.
- \$4.6 million to provide for infrastructure improvements to trial court facilities pursuant to Rule of Court 810.
- \$4.2 million to fully fund Jury Reform related to the One-day/One-trial Jury Service.
- \$3.7 million to address workload for court interpreters who assist non- English speaking defendants in trial court proceedings.

Department of Justice

The budget proposes \$596.8 million (\$323.7 million General Fund and \$273.1 million in various special funds and reimbursements) for the Department of Justice in 2001-02, which reflects an increase of \$11.8 million over the current year.

The major proposed increases are:

- \$10.5 million General Fund to continue 106 positions in the California Methamphetamine Strategy (CALMS) program, in anticipation of the potential loss of federal funds.
- \$4.0 million to assist in the evaluation and investigation of the energy industry in California. (A \$2.4 million deficiency request has been submitted to begin this work in the current year.)
- \$2.8 million to establish Sexual Predator Apprehension Teams (SPAT) in Orange and San Diego County.

- \$2.4 million in the Criminal Law Division related to federal capital and non-capital appeals by prisoners.
- \$1.8 million to represent the State in Post-Conviction DNA testing petitions that are not handled by local district attorneys.

Department of Corrections

The Department of Correction's inmate population is projected to increase from 162,846 on June 30, 2001 to 164,473 by June 30, 2002, an increase of 1,627 inmates, or 1 percent. These projections represent a slight reduction from the department's fall population projections and are consistent with recent trends in population growth. The parole population is projected to increase from 123,058 on June 30, 2001, to 126,316 by June 30, 2002, an increase of 3,258 parolees, or 2.6 percent.

The budget proposes \$4.8 billion (\$4.7 billion General Fund and \$100 million in various special funds) in 2001-02, which reflects an increase of \$220.8 million over the current year.

The major proposed increases are:

- \$92.7 million for 23 new and 11 continuing capital outlay projects related to various security and infrastructure needs.
- \$58.3 million to repair or replace electromechanical security door operating systems at several institutions.
- \$56.9 million to accommodate actual and projected cost increases for pharmaceutical and medical supplies.
- \$28.2 million to increase the budgeted relief factors to allow employees in posted positions the opportunity to take off accrued time, reduce the liability for excess leave balances, and reduce staff overtime.
- \$25.8 million to address increased costs for contracted medical and psychiatric services.
- \$21.8 million for workers' compensation costs and to perform fraud investigations for workers' compensation claims.
- \$16.0 million to expand the mental health services program.
- \$8.4 million for various institutional security enhancements.
- \$3.9 million to implement a 500-bed therapeutic community substance abuse treatment program expansion, including community-based residential aftercare treatment for 50 percent of the program graduates.
- \$1.1 million to expand the Parole Agent Academy from 6 weeks to 10 weeks.

In addition to the above proposals, the Administration is requesting approximately \$93 million for current year program deficiencies primarily related to population increases and increased medical and psychiatric supply costs.

Department of the Youth Authority

The Department of the Youth Authority projects an institution population of 7,140 youthful offenders by June 30, 2001, decreasing by 165 wards to a projected June 30, 2002, population of 6,975. Additionally, the parole population is projected to be 4,605 by June 30, 2001, decreasing by 20 cases to a projected June 30, 2002, level of 4,585.

The budget proposes \$431.4 million (\$348.1 million General Fund and \$83.3 million in various special funds) for the Youth Authority in 2001-02, which reflects an increase of \$15.8 million over the current year.

The major proposed increases are:

- \$4.3 million to expand mental health treatment programs by 75 inpatient beds and 20 transitional parole beds.
- \$2.8 million for 50 additional formal sex offender treatment beds and 35 parole transitional beds.
- \$720,000 for a 50-slot expansion of the Substance Abuse Treatment program and 25 contracted aftercare beds.
- \$549,000 to provide increased supervision and educational programming for the Authority's most violent wards.

Office of Criminal Justice Planning

The budget proposes \$318.5 million (\$127.9 million General Fund and \$190.6 million in various special funds) for the Office of Criminal Justice Planning in 2001-02, which reflects an decrease of \$71.2 million over the current year. This decrease is primarily due to the removal of various one-time funds in the current year.

The major proposed increases are:

- \$40 million for disbursement to High Intensity Drug Trafficking Areas (HIDTAs), which are multi-jurisdictional law enforcement collaboratives engaged in the effort to eliminate the production and distribution of illegal drugs.
- \$30 million (one-time) for allocation as competitive grants to local law enforcement agencies for construction and for facilities and equipment upgrades of local crime labs.
- \$7.6 million to expand the High Technology Theft Apprehension and Prosecution Program which provides resources for task forces that use specialized techniques to apprehend and prosecute individuals engaging in high technology crime.
- \$3.3 million to the High Technology Crime Task Force to train law enforcement on identity theft, develop protocols to follow when handling identity theft, enhance and coordinate efforts among agencies, and improve public awareness efforts.

Citizens Options for Public Safety (COPS) Program

Chapter 353, Statutes of 2000, the Crime Prevention Act of 2000, provided \$242.6 million for the COPS program and for various juvenile crime prevention programs in the 2000-01 fiscal year.

The budget proposes \$242.6 million to continue funding for COPS and the various juvenile crime prevention programs in the 2001-02 fiscal year.

Technology Grants for Local Law Enforcement

Lead by Senate Republicans, the 2000 Budget Act provided \$75 million as per-capita grants to local law enforcement agencies to purchase high-technology equipment for crime prevention and suppression, with minimum grants of \$100,000 to each recipient law enforcement entity.

The 2001-02 Governor's Budget proposes to provide a second year of funding for this program. However, unlike last year, local agencies that choose to receive this funding must report how the funds are used and the effect of those uses on local public safety.

TRANSPORTATION, RESOURCES, AND ENVIRONMENT

The Joint Republican Caucus Priorities propose a major commitment to investing in the State's infrastructure. This commitment, known as the 20/20 Vision Plan, calls for a phased-in approach that would result in dedicating 5 percent of General Fund revenue growth over the next 20 years to public works projects. For the Budget Year the Priorities call for investing \$3.1 billion in transportation, public safety, education, and other needed state and local infrastructure projects. The Plan is an on-going commitment by Republicans to strengthen California's deteriorating and neglected infrastructure on a pay-as-you-go basis, instead of burdening future generations with costly bonds.

Of the \$3.1 billion, \$500 million would be invested in fixing local streets and roads. Assembly Bill 2928 (2000), the omnibus transportation trailer bill, dedicates \$400 million for local streets and roads in the 2000-01 fiscal year. However, that amount is reduced to approximately \$108 million for the 2001-02 fiscal year. The Republican proposal would increase this amount to \$500 million for allocation to cities and counties.

The 20/20 Vision Plan also calls for \$1 billion available to share with local governments for needed infrastructure needs, such as natural resources, environmental, and other public works projects.

Finally, separate from the 20/20 Vision Plan, Republicans are supporting legislation which would establish an on-going commitment of \$50 million in General Fund revenue for the Carl Moyer Program. Last year, the Legislature approved a one-time expenditure of \$45 million for the clean-air program. Republicans are encouraging the Governor to make this expenditure permanent.

Governor's Budget Highlights

TRANSPORTATION

Department of Transportation

The budget proposes \$9.56 billion (\$934 million General Fund) for Caltrans in 2001-02, which reflects an increase of \$1.28 billion or 15-percent above the revised current-year expenditures.

The major proposed increases are:

- \$1.105 billion General Fund from the sales tax on gasoline for transportation pursuant to AB 2928 enacted last year. It should be noted that this amount is \$157 million more than the revenue estimate that was available when AB 2928 was enacted. The increase is due primarily to the continuing high price of, and strong consumer demand for gasoline. Under AB 2928, these funds are allocated as follows: \$678 million for special transportation projects, \$171 million for the State Transportation Improvement Plan, \$171 million for local streets and roads, and \$85 million for the Public Transportation Account.
- \$9.5 million for inter-city rail operations on the San Joaquin and Capitol Corridor Routes.
- \$98 million for three inter-city rail track improvements: the Pacific Surfliner (\$48 million), East Bay (\$29.4 million), and the Yolo Causeway (\$20.6 million) Routes.

- \$18 million for the Rural Transit System Program allocated as competitive grants to rural public agencies for capital improvements.
- \$20.3 million for retrofitting diesel vehicles to use cleaner-burning diesel fuels and increase the number of fleet vehicles that use liquefied petroleum gas.

Motor Vehicles

The budget proposes \$681 million (90-percent coming from the Motor Vehicle Account and Motor Vehicle License Fee Account) for the DMV in 2001-02, which reflects an increase of \$19 million, or 2.9-percent above the current year.

The major proposed increase is \$13.3 million to increase efforts to eliminate fraudulent activities such as counterfeiting driver's licenses and identity theft.

RESOURCES

The resources portion of the budget is funded primarily from the General Fund (60 percent), with the remainder coming from special funds (24 percent), and bond funds (16 percent). The Governor's Budget proposes spending approximately \$2.5 billion General Fund, which is \$895 million more than what was approved in the current year or an increase of 56 percent.

Energy Initiatives

The Governor is proposing \$1 billion General Fund for programs that will increase energy efficiency, reduce consumption, and increase the supply of electricity, which is the Governor's three-pronged strategy to combat the energy crisis. Of the \$1 billion, \$250 million is for conservation projects and \$750 million is for increasing energy generation (possibly a state facility), which will be contained in a budget trailer bill. Beyond this broad outline, the budget provides no detail, merely indicating that the administration will work with the Legislature to flesh out the specifics.

Secretary of Resources

The budget proposes \$227 million (\$77 million General Fund) for the Secretary in 2001-02, which reflects an increase of \$96 million (\$66 million General Fund), or 73 percent above the current year.

The major proposed increase is \$70 million to implement the River Parkway Initiative, which would acquire and restore several river parkways throughout the state. Such projects include: \$8 million for the Tuolumne River Parkway, \$7 million for the San Joaquin River Parkway, and \$4 million for the Sacramento River Parkway.

In addition, the Budget indicates that \$88.7 million in Proposition 204 bond funds will be available to improve and increase aquatic and terrestrial habitats and improve ecological function as part of the long-term solution to address water quality in the Bay-Delta.

CALFED

The budget proposes \$294.5 million (\$91.7 million General Fund, \$171.2 million bond funds, \$30.5 million federal funds, and \$1.1 million other funds) to implement the Record of Decision and Final Environmental Impact Statement/Environmental Impact Report (EIS/EIR), issued on August 28, 2000. The CALFED Program targets improvements in drinking water quality, water storage, delta conveyance, delta levees, ecosystem restoration, watershed management, water transfers, water use efficiency, a strong science program, and an Environmental Water Account.

The major proposed expenditures are:

- \$101.5 million for CALFED ecosystem restoration programs and projects.
- \$113.8 million for water use efficiency, drinking water quality, Delta conveyance, water transfers, watershed management, and Delta levees.

Parks and Recreation

The budget proposes \$578 million (\$138 million General Fund) for the Department in 2001-02, which reflects a decrease of \$422 million (\$138 million General Fund), or 43 percent below the current year. The difference is attributable to an elimination of several one-time expenditures in the current year. ***The Department's budget does not take into consideration the numerous legislative priorities which will be included in the final budget agreement, which will increase the Department's budget considerably.***

The major proposed expenditures are:

- \$300 million (\$269 million in Proposition 12 bond funds) for grants to local agencies for recreational facilities, historical preservation projects, and habitat protection efforts.
- \$11 million General Fund for ongoing resources maintenance.

Water Resources

The budget proposes \$745 million (\$256 million General Fund) for DWR in 2001-02, which reflects a decrease of \$309 million (\$83 million General Fund), or 29 percent below the current year. The difference is attributable to an elimination of several one-time expenditures in the current year. ***The Department's budget does not take into consideration the numerous legislative priorities and May Revision projects which will probably be included in the final budget agreement, which will increase the Department's budget considerably.***

The major proposed expenditures are:

- \$73.6 million General Fund for the local flood control subventions program.
- \$117.6 million General Fund in financial incentives to local agencies to plan, design, and construct flood protection projects.

ENVIRONMENT

Environmental protection programs are funded by special funds, bonds, and General Fund revenues. Although most of the funding for these programs is special funds, there has been a substantial increase in General Fund spending in the Governor's Budget. The Governor is proposing to spend \$563 million General Fund revenue, which is \$145 million more than the \$418 million that was approved in the 2000 Budget Act, an increase of 35 percent.

State Water Resources Control Board

The budget proposes \$872 million (\$109 million General Fund) for the Board in 2001-02, which reflects an increase of \$41 million (\$22 million General Fund), or 5 percent above the current year.

The major proposed increases are:

- \$100 million General Fund for the Clean Beaches Initiative, which would clean up beach contamination caused by two sources: sewage spills and urban runoff. These local grants would go out on a competitive bid process using a methodology to be determined later by the Legislature.
- \$206 million in Proposition 13 (Water Bond) funds for projects such as the Southern California Integrated Watershed Program (\$87.9 million), Coastal Non-point Source Pollution Control (\$30 million), and Non-point Source Pollution Control (\$27 million) programs.

Air Resources Board

The budget proposes \$306 million (\$186 million General Fund) for the ARB in 2001-02, which reflects an increase of \$63 million (\$58 million General Fund), or 26 percent above the current year.

The major proposed increases are:

- \$100 million General Fund for a program similar to the Carl Moyer Program. The new program would attempt to replace (not retrofit) an estimated 5,000 to 6,000 conventional diesel engines with clean-air alternatives. The program is expected to reduced nitrous oxide emissions by five tons per day with a portion of the credits for emission reduction earned through this program used to offset increased emissions from additional power plant operations necessitated by demands for peak electrical power production. Republicans proposed an annual commitment of \$50 million for the Moyer program; however, this program would also include grants to retrofit, as well as replace, diesel engines.
- \$50 million General Fund to provide financial incentives to offset the cost of purchasing zero-emission vehicles (ZEV) and defray the cost of installing a vehicle charger in the home. The program seeks to encourage the purchase of up to 10,000 ZEV's. Considering the energy shortage California is experiencing, the Legislature might consider delaying this ambitious program, which would dramatically increase the demand for electricity. Additionally, the State has been investing funds to encourage the purchasing of ZEV's and there is still no market demand for these vehicles.

Toxic Substances Control

The budget proposes \$228 million (\$110 million General Fund) for the Department in 2001-02, which reflects an increase of \$69 million (however, there is a decrease of \$27 million General Fund), or 35-percent above the current year. The reason for the decrease in General Fund revenue is because the \$85 million approved for Brownfields cleanup was a one-time appropriation in the current year.

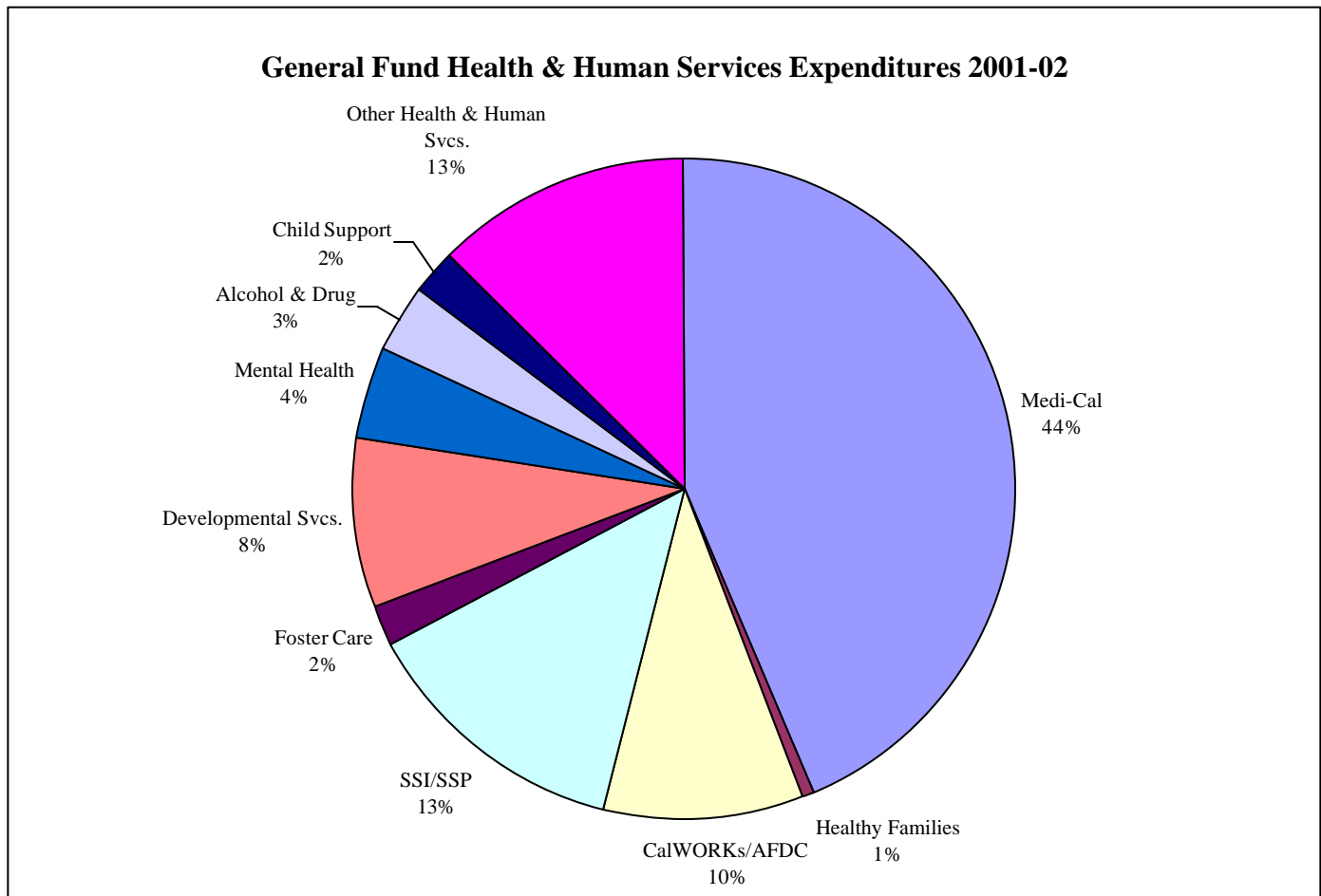
The major proposed increase is:

- \$40 million to expand the Urban Cleanup Initiative (Brownfields cleanup). The program currently leverages private investment capital through strategic loans to identify and clean up polluted properties in urban core neighborhoods. The program expansion initiative would help parties participating in the program to obtain necessary insurance to reduce the risk of potential open-ended liability for contamination and cleanup cost overruns.

HEALTH AND HUMAN SERVICES

General Fund expenditures in the area of Health and Human Services are proposed to ***increase by \$1.3 billion*** (or 7 percent) from \$20.3 billion from the revised current year budget to \$21.6 billion for the budget year. As indicated in Figure 2 below, the largest expenditure are for Medi-Cal, Supplemental Security Income/State Supplementary Payment (SSI/SSP), and CalWORKs, which together comprise 67 percent of General Fund expenditures for fiscal year 2001-02.

Figure 2



HEALTH

The Joint Republican Caucus Priorities propose allocating \$430 million of ongoing General Fund revenues (coupled with a like amount of federal matching funds) to provide a 25-percent increase in the rates paid to physicians, dentists, outpatient facilities and clinics, as well as to the many other providers upon whom the State relies to care for Medi-Cal clients.

Governor's Budget Highlights

Provider Rate Increases

The budget **does not propose** any across-the-board Medi-Cal rate increases. However, the budget proposes funding for the recent settlement agreement in the hospital outpatient services case. Since 1990, the State has been involved in litigation with hospitals regarding Medi-Cal reimbursement rates for these services. Under the agreement, hospitals will receive a one-time payment of \$350 million (\$175 million General Fund) to address previous years' reimbursement levels. In addition, the budget proposes \$128.4 million (\$64.2 million General Fund) to increase reimbursement rates by 30-percent. For the next three years thereafter, the rates will increase annually by an additional 3.33-percent.

The 1998 Master Tobacco Settlement

The budget proposes the creation of a new special fund – the Tobacco Settlement Fund. Trailer bill language needed to establish this fund will include annual General Fund loan authority to facilitate cash flow. Monies in this fund will be used exclusively for the expansion of health care services in California and will be targeted toward the uninsured, cancer treatment, and anti-smoking efforts. In 2001-02, the State will receive an estimated \$468 million under the 1998 Master Tobacco Settlement. In past years, Tobacco Settlement funds were deposited directly into the General Fund with no restrictions on use. The following program expansions are proposed for the budget year:

- **Healthy Families:** \$74.4 million for coverage of an additional 106,000 children with family incomes from 200 to 250 percent of the federal poverty level (fpl).
- **Healthy Families:** \$76.1 million to expand coverage to 174,000 uninsured parents of Healthy Families or Medi-Cal eligible children in families with incomes between 100 and 200 percent of the fpl.
- **Medi-Cal:** \$47 million to establish an income deduction to provide no-cost Medi-Cal benefits to 52,800 aged, blind and disabled persons with incomes below 133 percent of the fpl.
- **Medi-Cal:** \$123 million to expand eligibility to 249,000 individuals in families with incomes at or below 100 percent of the fpl.
- **Youth Anti-Smoking Campaign:** \$20 million (\$5 million one-time) to provide grants to local non-profit organizations and assistance to local governments to reduce smoking among teens and college-age youth. These funds are in addition to the \$114.5 million in Prop. 99 funds used for anti-smoking efforts.

- **Breast Cancer Treatment:** \$20 million augmentation to provide services to 1,250 uninsured or underinsured adults whose incomes are below 200 percent of the fpl.
- **Prostate Cancer Treatment:** \$20 million augmentation to provide services to 1,200 uninsured or underinsured adults whose incomes are below 200 percent of the fpl.
- **Child Health and Disability Prevention (CHDP):** \$64.9 million to include children above age six. In addition, the budget proposes shifting all funding of CHDP services to the Tobacco Settlement Fund.

Healthy Families Program

The budget proposes \$733.1 million (\$125.2 million General Fund, \$74.4 million Tobacco Settlement Fund, and enhanced federal funds) to serve the estimated 561,000 children who will be enrolled by June 30, 2002. The budget also proposes \$201.5 million (\$76.1 million Tobacco Settlement Fund and enhanced federal funds) to expand the program to include uninsured parents. Costs are not directly comparable with past year expenditures and current year projected costs because program eligibility, benefits, monthly premiums and patient co-payments have changed over time. In addition, the caseload has grown from 128,000 children in fiscal year 1998-99 to a projected total (children and a portion of parents) of 735,000 eligibles in the budget year. *The Administration is proposing to accomplish the expansion to cover parents through the “regulation” process, rather than codifying eligibility and benefit levels in statute with appropriate legislative oversight.*

The budget proposes \$42.2 million to expand funding for outreach programs by \$7.9 million. This augmentation includes \$6 million to enhance the effort to partner with schools and school-affiliated programs to provide children and their families with information about the Healthy Families and Medi-Cal Programs and the application process. Last year the outreach budget was increased by \$10 million. *Some Republican members may be concerned that the Administration is spending such large sums on an outreach effort to increase program participation rather than spending funds to provide direct services, raise Medi-Cal reimbursement rates, or pay for other priorities.*

Medi-Cal

The budget proposes \$25.2 billion (\$9.3 billion General Fund) for the Medi-Cal Program, a decrease of \$132 million General Fund, or 1.4-percent below the revised 2000-01 budget. This decrease results from the shift of both revenues and some expenditures to Tobacco Settlement funds from the General Fund. Caseload is expected to increase by more than 640,000 eligibles, or 12.3-percent, to just over 5.8 million eligibles. This caseload increase is due primarily to various eligibility expansions and simplifications that will allow more recipients to remain eligible longer.

The budget proposes several significant program changes:

- **Funding for Medicare HMO Premium Payments:** The budget proposes \$19.8 million (\$9.9 million General Fund) in increased current-year expenditures to pay the half-year costs of paying Medicare premiums for individuals who are also eligible for Medi-Cal, thus retaining Medicare as the primary payer for services, including pharmacy benefits.

- **Funding for Ancillary Services in Institutions for Mental Disease (IMDs):** The budget proposes \$19.6 million General Fund to continue state-only funding for ancillary medical services, and the Administration will continue to seek a change in federal law that will provide federal financial participation in this program.

Projected expenditures for the current year are being revised to reflect an increase of \$204 million General Fund, or 2.2 percent above the 2000 Budget Act. Several significant program expansions are being implemented in the current year:

- **No-Cost Medi-Cal for the Working Poor:** Effective March 2000, benefits were extended to two-parent working families with incomes at or below 100 percent of the federal poverty level (fpl). The budget proposes \$245.8 million (\$123 million Tobacco Settlement Fund) for this program.
- **Medi-Cal for the Working Disabled:** Effective April 2000, benefits were extended to disabled working individuals with income below 250 percent of the fpl. Individuals pay a sliding scale monthly premium. The budget proposes \$760,000 (\$380,000 General Fund) to serve 443 individuals.
- **No-Cost Medi-Cal for Low-Income Seniors and Disabled Individuals:** Effective January 2001, benefits are being extended to aged, blind, and disabled persons with incomes below 133 percent of the fpl. The budget proposes \$94.1 million (\$47 million Tobacco Settlement Fund) to serve 52,800 beneficiaries.

In addition, applying for and continuing eligibility for the Medi-Cal Program has been simplified:

- **Elimination of the Quarterly Status Report:** Approximately 218,000 adults will retain coverage at a cost of \$142 million (\$71 million General Fund) in the budget year.
- **Continuous Eligibility for Children:** The budget proposes \$269.5 million (\$134.8 million General Fund) to provide 12-month continuous eligibility for children 19 years of age or younger. Average monthly eligibles will increase by 369,000 beneficiaries.
- **Continuing Eligibility for Persons leaving CalWORKs:** The budget proposes \$17.9 million (\$9 million General Fund) to allow approximately 15,750 adults who would otherwise have been discontinued for failure to provide eligibility documentation to retain Medi-Cal eligibility.

Nursing Homes

The budget proposes an additional \$1.9 million (\$1 million General Fund) and 22.5 positions to continue efforts to raise the level of care in nursing homes and to ensure a response within 24 hours to any safety complaint. In addition, the budget proposes \$1 million (\$508,000 General Fund) on a one-time basis to develop an assisted living waiver to increase the alternatives to nursing home care and \$1 million (\$500,000 General Fund) to develop an assessment tool for individuals who qualify for long-term care in a community setting. The budget also proposes \$1 million General Fund annually for three years for a pilot project to expand community-based placement options for individuals currently placed in Institutions for Mental Disease (IMDs).

Health Insurance Portability and Accountability Act (HIPAA)

HIPAA requires all health care providers and health plans that engage in electronic administrative and financial transactions to use a single set of national standards and identifiers. The budget proposes \$22.4 million (\$3.9 million General Fund) and 25.1 positions in various Health and Human Services Agency (HHSA) budgets as well as a statewide budget appropriation of \$70 million (\$20 million General Fund) for implementation of HIPAA. HHSA appropriations for HIPAA would be as follows:

- **Department of Health Services:** \$18.7 million (\$2 million General Fund) for 15.1 positions and contract funding for administrative simplification policy development.
- **Department of Mental Health:** \$2.4 million (\$1.2 million General Fund) and 9 positions to implement regulations and modify computer systems.
- **Department of Developmental Services:** \$850,000 (\$425,000 General Fund) to contract with computer programmers for coding and processing of health insurance claims.
- **Department of Alcohol and Drug Programs:** \$300,000 General Fund to conduct a feasibility study for an enterprise-wide consolidated relational database.
- **Office of Statewide Health Planning and Development:** \$99,000 to fund one position to initiate compliance with federal requirements on electronic data collection and transfer.

Mental Health

The budget proposes expenditures of \$2.032 billion (\$953 million General Fund) for mental health services. This reflects an increase of \$210.5 million, or 11.5-percent, over the revised 2000-01 budget. Of the total amount, \$1.379 billion is for local assistance, \$606.4 million is for the state hospitals, and \$46.5 million is for department support.

In addition, it is estimated that \$1.204 billion will be available in the Mental Health Subaccount (County Realignment Funds), which does not directly flow through the state budget. This amount does not include the estimated \$14 million that may be made available from the Vehicle License Collection Account.

Further, an appropriation of \$352.8 million (\$3.6 million General Fund, \$349.3 Public Building Construction Fund) is also provided for capital outlay purposes. The special funds will be used for the construction of a 1,500-bed treatment facility to house Sexually Violent Predators (SVPs).

Significant budget increases include:

- \$125.6 million (Medi-Cal reimbursements from DHS) for the expansion of the Early Periodic Screening Diagnosis and Treatment (EPSDT) Program for children.
- \$55.6 million on an ongoing basis to provide mental health treatment services to individuals with severe mental illness who are at risk of homelessness.

- \$20 million (one-time basis) for special repairs and deferred maintenance projects for the state hospitals.
- \$7.1 million (total funds) net increase for patient population adjustments, including the completion of the transfer of forensic patients with developmental disabilities from Napa State Hospital back to the Department of Developmental Services for appropriate placement in that service system.

Developmental Services

The budget proposes total expenditures of \$2.676 billion (\$1.835 billion General Fund), which is an increase of \$122.9 million (total funds) over the revised 2000-01 budget. Of this amount, \$2.038 billion is for services provided in the community, \$601 million is for support of the state developmental centers, and \$36.9 million is for state support. It is estimated that caseload will increase by 8,300 persons to 166,814 clients. One item of note is an increase of \$36.5 million General Fund in the current year to backfill for the loss of federal funds due to the decertification of Agnews and Sonoma developmental centers and the delay in getting the new Sierra Vista facility initially certified.

HUMAN SERVICES

The Joint Republican Caucus Priorities included \$15 million to implement the Senior/Disabled Home Modification Loan Program. This program would provide no-interest loans to seniors and disabled persons to make home modifications that would assist in daily living activities (i.e. handrails in the bathroom, wheelchair ramps, and shower stall modifications). The Budget does not include funds for the proposed program.

Governor's Budget Highlights

Department of Alcohol and Drug Programs

The budget proposes \$680 million (\$273 million General Fund, \$321 million federal funds, \$86 million various special funds) for fiscal year 2001-02, which reflects an increase of \$72 million (\$70 million General Fund), or 12 percent above the revised current year budget.

The major proposed increases are:

- \$120 million General Fund for the full-year implementation of Proposition 36. Of this amount, DADP will retain \$2.8 million for personnel costs and allocate the remaining \$117.2 million to the 58 Counties, based on treatment caseloads and drug crimes.
- \$38.3 million (\$19.7 million General Fund) for caseload adjustments in the Drug Medi-Cal program.

In addition to the proposed increases noted above, the current-year budget includes an augmentation of \$60 million General Fund (half-year costs) to fund the implementation of the Substance Abuse Treatment and Crime Prevention Act of 2000 (Proposition 36); and \$17 million (\$9.5 million General Fund) for Drug Medi-Cal caseload adjustments.

Department of Community Services and Development

The budget proposes \$138 million (\$8 million General Fund, \$121 million federal funds, \$9 million various special funds) for fiscal year 2001-02, which reflects a net decrease of \$21 million primarily due to a reduction in federal funds. General Fund expenditures are also proposed to decrease by \$5 million, which is almost entirely offset by a corresponding increase in expenditures from the Petroleum Violation Escrow Account (PVEA) of \$4.9 million to provide energy assistance to low-income households.

Employment Development Department

The budget proposes \$6,727 million (\$30 million General Fund, \$6,697 million various special funds) for fiscal year 2001-02, which reflects a decrease of \$26 million (\$5 million General Fund, \$21 million various special funds) or 0.4-percent below the revised current year budget. This decrease is attributable to significant current year augmentations for workload growth which is estimated to decline in the budget year.

The major proposed adjustments are:

- \$18 million special funds for the School-to-Career program.

- \$5 million General Fund to continue funding faith-based organizations for employment training and job placement services. This is the second-year funding for a program which Senate Republicans introduced last year as part of the Charitable Choice proposal.
- \$71 million special funds -- \$8.5 million for temporary help personnel years to address workload increases involving Unemployment Insurance tax collections and processing, and \$62.5 million in benefit payments.
- \$116 million special funds -- \$3.6 million for temporary help personnel years to address workload increases for Disability Insurance tax collections and processing and \$112.4 million in benefit payments.
- \$3.3 million special funds for unemployment insurance appeals workload.

In addition to the proposed increases noted above, the current year budget includes an augmentation of \$125 million special funds for Unemployment Insurance temporary personnel costs and benefit payments; \$50 million special funds for Disability Insurance temporary personnel costs and benefit payments; and \$3.5 million special funds for appeals workload.

Department of Child Support Services

The budget proposes \$1,105 million (\$487 million General Fund, \$618 million federal funds) for fiscal year 2001-02, which reflects an increase of \$160 million (\$84 million General Fund, \$76 million federal funds), or 17 percent above the revised current-year budget.

Total child support collections are projected at \$2.3 billion for fiscal year 2001-02, an increase of 9.5 percent from \$2.1 billion in the current year.

The major proposed increases are:

- \$1.6 million (\$537,000 General Fund) for the Pre-Statewide Interim Systems Management (PRISM) project, to support the activities of 18 counties transitioning to one of the approved interim child support consortia systems.
- \$50 million General Fund to pay federal penalties for not having a statewide child support information technology system in place.
- \$57 million General Fund for child support payments. Child support collections are initially deposited into the General Fund and payments are later made from the General Fund. This adjustment reflects the transaction.

In addition to the proposed increases noted above, the current-year budget includes an augmentation of \$3.8 million (\$1.3 million General Fund) for the PRISM project; and \$12 million General Fund to pay federal penalties for not having a statewide child support information technology system in place.

Department of Social Services

For the Department of Social Services overall, the budget proposes \$14.9 billion (\$7.7 billion General Fund, \$5.8 billion federal funds, \$1.5 billion various special funds) for fiscal year 2001-02, which reflects an increase of \$686 million (\$644 million General Fund, \$42 million other funds), or 5 percent above the revised current year budget.

CalWORKs –The Governor’s Budget proposes a reduction in total funding for this program of \$120 million, however, General Fund expenditures are proposed to increase by \$191 million. Major adjustments in this area include:

- An increase of \$151 million for cost-of-living adjustments.
- An increase of \$40 million to meet the state match requirements for the Welfare-to-Work Grant.
- A decrease of \$148 million due to caseload decline.
- A decrease of \$97 million in County Performance Incentives due to limited TANF funds.

In addition to the adjustments noted above, the current-year budget includes \$100 million increase for Stage One child care; \$47 million decrease for caseload; and \$153 million decrease in County Performance Incentives.

Foster Care – Funding for this program is proposed to increase by \$52 million from the revised current year budget of \$883 million to \$935 million. Major adjustments in this area include \$41 million (\$19 million General Fund) for a cost-of-living adjustment.

Supplemental Security Income/State Supplementary Payment Program (SSI/SSP) – The Governor’s Budget proposes an increase of \$244 million, or 9 percent, from the revised current year budget of \$2.6 billion to \$2.9 billion, or a 9 percent increase. Major adjustments in this area include:

- \$175 million General Fund for cost-of-living adjustments.
- \$55 million General Fund for caseload growth.
- \$1.9 million General Fund for the California Veterans Benefit, a new program authorized under AB 1978 (Cedillo).
- A net increase of \$5.2 million for adjustments in the Cash Assistance Program for Immigrants (CAPI).

In-Home Supportive Services (IHSS) – The Governor’s Budget proposes an increase of \$286 million, or 15 percent, from the revised current year budget of \$1.9 billion to \$2.2 billion. Of this amount, the General Fund increase is \$97 million, from \$752 million to \$849 million, or a 13 percent increase. Major adjustments in this area include:

- \$23 million General Fund for caseload growth.
- \$33 million General Fund due to minimum wage increases.

GENERAL GOVERNMENT AND LOCAL GOVERNMENT

The Joint Republican Caucus Priorities announced in December 2000 included a variety of tax relief measures for working families and job creating business tax credits. The relief for working families included a phase out of the car tax, an increase in the dependent exemption credit, a permanent reduction to the ¼ cent sales tax and increased assistance to senior homeowners and renters. In addition, the business tax credits include expanding the manufacturers investment credit, enhanced research and development credits, enhanced net operating loss carry forward credits, and credits for space launch equipment. The following chart outlines the totality of the Republican tax relief package.

REPUBLICAN TAX RELIEF PROPOSALS						
Republican Proposals	One Time	2001-02	2002-03	2003-04	2004-05	2005-06
Car Tax		\$500	\$1,000	\$1,300	\$1,600	\$2,268
1/4 Cent Sales Tax		\$570	\$1,270	\$1,350	\$1,440	\$1,540
Dependent Exempt. Credit		\$500	\$515	\$530	\$546	\$562
Scholarshare		\$8	\$23	\$38	\$38	\$38
MIC 6-8%		\$91	\$91	\$91	\$91	\$91
MIC- Min. Extract & Ag		\$36	\$36	\$36	\$36	\$36
Basic R&D		\$41	\$55	\$61	\$61	\$61
Alt R&D		\$26	\$41	\$50	\$50	\$50
NOL		\$7	\$42	\$95	\$95	\$95
Carl Moyer		\$50	\$50	\$50	\$50	\$50
Space Launch Sales Tax Ex.		\$14	\$14	\$14	\$14	\$14
Loaned Teachers		\$1	\$1	\$1	\$1	\$1
Gas Sales Tax Moratorium	\$1,500					
Sr. Citizens Prop Tax Assist	\$214					
TOTAL	\$1,714	\$1,844	\$3,138	\$3,616	\$4,022	\$4,806

The Joint Republican Caucus Priorities also included several items to help local government crime fighting capabilities. These include additional funds for technology grants, juvenile justice facilities, crime labs and project exile which are further discussed in the Public Safety section of this document.

Governor's Budget Highlights

Elimination of Vacant Positions

In March 2000, Senate Republicans released a detailed analysis that highlighted the growing number of vacant positions throughout state government and documented a "budget shell game" that numerous state departments were playing to circumvent standard budget policy. The analysis revealed that a large number of state departments maintain vacancy rates substantially higher than the 5 percent budgeted by the Department of Finance. Furthermore, the analysis called into question nearly \$250 million that had been budgeted for salary and related benefits, but had been spent elsewhere in departmental budgets (the "shell game"). In total, the analysis revealed that the state had approximately 207,000 authorized positions for the 1998-99 fiscal year. Of this amount, 9,796 positions (4.7 percent) were budgeted as vacant and approximately 12,000 additional

“excess” positions were purposely being held vacant for other reasons. In total, the 21,796 vacant positions represented a statewide vacancy rate of 10.48 percent

In response, in the Spring of 2000 the Department of Finance conducted a survey of the 29 largest departments accounting for approximately 85 percent of all authorized positions in state government. On April 13, 2000, Finance released an extensive report confirming the concerns raised in the Senate Republican analysis about the “shell game.” To address the statewide vacancy problem and at the request of the Administration, the Budget Act of 2000 included Control Section 31.50 to eliminate 1,736 vacant positions from 17 separate departments. Together with the 1,840 vacant positions which were eliminated as part of the development of the 2000-01 Governor’s Budget, the total position reduction proposed by the Administration was 3,576, or approximately 30 percent of the excess vacancy total. In addition to these position reductions, Senate Republicans successfully advocated for adoption of trailer bill statutory language to make it more difficult for departments to play the “budget shell game.”

This fall, the Department of Finance continued its review of vacancies in state government. As a result of this review, approximately 850 vacant positions were eliminated and an additional 1,650 vacant positions were redirected to other higher priority needs. The redirections were done in lieu of adding new positions to various departmental budgets. In addition to these 2,500 positions, there were 600 vacant positions that either expired or were eliminated in the current fiscal year. Therefore, the Administration claims that 3,100 vacant positions were eliminated in this budget. When added to the 3,500 positions the Administration eliminated last year, a total of approximately 6,600 vacant positions seem to have been eliminated, although Senate Republican Fiscal Staff have not yet had a chance to verify this. Regardless of the exact number of vacant positions eliminated by the Administration, as many as 5,500 *more* excess vacant positions exist in state government. We will be reviewing this matter further as budget subcommittees start hearing individual departmental budgets.

Governor’s Tax Relief Proposals

Despite revenue increases of almost \$8.5 billion since 1999-00, the Governor’s Budget includes only very modest tax relief of \$108 million, and practically no tax relief for working families. The new tax relief measures proposed in the Budget are as follows:

- **Back to School Sales Tax Holiday:** The Budget proposes a three-day sales tax holiday on back-to-school necessities for late August. This will assist California families by reducing their expenses on clothing, footwear, and computers by up to 8.25 percent. For three days, all sales tax will be suspended on each purchase up to \$200 on clothing, \$200 on footwear, and \$1,000 for computers and related equipment. Because a portion of the sales tax rate is imposed by local governments, these entities will have the option to not to participate. The General Fund Revenue reduction resulting from this proposal is estimated to be \$27 million in 2001-02.
- **Increasing the Manufacturers’ Investment Credit:** The manufacturers’ investment credit (MIC) is an important incentive for businesses considering expansion or locating new facilities in California. In order to improve California’s competitive position, the Budget proposes to increase the manufacturers’ investment credit from 6 percent to 7 percent. This increase is expected to result in revenue reductions of \$70 million in 2001-02, \$90 million in 2002-03, and \$95 million in 2003-04. *This proposal is similar to the Republican proposal to increase the credit to 8 percent.*

- **Extending the Sunset for the Manufacturers' Investment Credit and Exemption:** Current law provides the MIC will terminate on January 1, 2001, or the earliest January thereafter, if employment in manufacturing in California (excluding aerospace employment) is not at least 100,000 higher than it was on January 1, 1994. Because about 200,000 jobs have been created since this credit was established, the termination of the credit will not be triggered this year. However, this annual test creates uncertainty for businesses and interferes with their ability to do long-term planning. The Budget proposes to move the sunset test date to January 1, 2008. In 1999, Senate Republicans recommended the elimination of the sunset altogether.
- **Adding Software Developers to the Manufacturers' Investment Exemption:** Software developers are eligible for the current manufacturers' investment credit. However, the complementary State Sales Tax exemption for new firms' purchases of manufacturing machinery and equipment, which usually provides parallel treatment to that provided by the credit, does not include software developers. To provide consistent treatment, the Budget proposes to add software developers to the manufacturers' investment exemption, resulting in a \$500,000 revenue reduction.
- **Space Launch Exemption:** The Budget proposes to expand the current sales tax exemption for space flights to include property used in spaceport operations or for assembly, launch, or transport. Expansion of this exemption will result in revenue reductions of \$6.3 million in 2001-02, \$2.6 million in 2002-03, and \$0.8 million in 2003-04. *This proposal is similar to the Joint Republican Proposal.*
- **Increasing the Capital Gains Exclusion for Small Business Stock:** The Budget proposes to increase the current 50 percent exclusion for gain from the sale of small business stock held for more than five years to 100 percent. This will apply to stock purchases after January 1, 2001. Revenue reductions are expected to be about \$30 million annually beginning in 2006-07.
- **Employer Transit Pass Credit:** The Budget proposes a credit for employers who provide subsidized transit passes to their employees. The credit would be 80 percent of the subsidy cost for employers who do not provide free or subsidized parking; 40 percent for employers who subsidize employee parking; and 20 percent for employers who provide free parking. This credit is intended to reduce traffic gridlock and improve air quality. Revenue reductions are expected to be \$3 million in 2001-02, \$3 million in 2002-03, and \$4 million in 2003-04.
- **Loaned Teacher Credit:** The Budget proposes a 50 percent credit for employers who allow their employees to teach these subjects in public schools on company time. This credit would apply to math and science taught in middle and high schools, and community colleges and will result in revenue reductions of about \$1 million per year. *This proposal is similar to the Joint Republican Proposal.*

Vehicle License Fee (Car Tax)

The vehicle license fee (VLF) is an annual fee on the ownership of a registered vehicle in California levied in place of taxing vehicles as personal property. The fee rate is 2 percent of a vehicle's current estimated value, which is calculated from the owner's depreciated purchase price. Approximately \$5.5 billion in VLF revenues are annually distributed to cities and counties.

In 1998, the Legislature and Governor enacted a 25-percent permanent reduction in the VLF effective January 1, 1999, with the potential of greater reductions beginning in 2000-01 if General Fund revenues achieved specified revenue forecasts (triggers). Under the tax reduction component of the Budget Act of 1999, the Car Tax was further reduced by 10 percent, resulting in a VLF offset of 35 percent for calendar year 2000 for total tax relief of \$1.7 billion.

The Budget Act of 2000 included a “trailer bill” that permanently reduced the Car Tax to an offset of 67.5 percent effective January 1, 2001. The bill provided that, for 2001 and 2002, the difference between 67.5% and 35% offsets will be mailed to each registered car owner as a rebate. Starting in 2003, the full 67.5% offset will be reflected on DMV registration bills. The trailer bill also eliminated the interaction of future tax cuts with the VLF offset levels, in other words, future tax cuts are completely de-linked from the VLF offset calculation. **The Administration estimates that the total tax relief provided under this law will be \$3.7 billion in 2001-02.**

- *The Joint Republican Caucus Priorities includes a tax relief proposal to completely phase out the car tax over a three to five period of time depending on state General Fund revenues. Under this proposal, local government would be reimbursed for lost VLF revenues.*

Appendix 3 includes a summary of all the tax relief measures enacted as part of the Budget Act of 2000.

Franchise Tax Board

The budget proposes \$427.8 million for the FTB which is a decrease of \$10 million or 2 percent from the current year. The major change proposed is \$4.2 million and 56 personnel years in 2000-01, and \$3.8 million and 64 personnel years in 2001-02 to implement the new refundable child care credit.

Trade and Commerce Agency

The budget is proposed to decrease by \$16.4 million, or 4.9 percent, for total expenditures of \$331.2 million. Highlights include:

- \$6.2 million for the California Technology Investment Partnership (CalTIP). This includes \$5.0 million for grants and \$1.2 million for new Regional Technology Alliances that administer the grant program and assist businesses and \$1 million for Regional Technology Alliances to administer the program throughout the state.
- \$3.0 million (one-time) increase in grants to replace or upgrade underground storage tanks.
- \$3.0 million for additional defense adjustment matching grants to communities affected by base closures.

Department of Insurance

The budget proposes \$162.9 million which is \$3.5 million or 2.2 percent more than the current year. Highlights include:

- \$734,000 to purchase specialized equipment for the investigation of automobile fraud activities. This proposal is directed at fraud conspiracies and other organized criminal activity.

- \$1.8 million to implement an Employment Misrepresentation Tax Force to investigate employers who commit workers' compensation premium fraud.

Secretary Of State

The budget proposes \$79.2 million which is \$5.3 million, or 6 percent less than the current year.

Highlights include:

- The budget proposes \$581,000 to implement the changes necessary to implement Proposition 34, which required candidates to report whether or not they accept voluntary spending limits. The Secretary of State is required to report this information on the Internet.
- The budget proposes \$200,000 to implement the California State Government Oral History program which was established to document the legislative and executive process of public policy making in the state.
- The budget proposes \$7.3 million for the second phase of the Business Automation Program which is intended to increase the reliability of data, standardize and simplify various business systems and security filings, reduce turn around time and improve the overall level of service.

Department of General Services

The budget proposes an increase by \$34.7 million, or 4.3 percent, to \$844 million. The Service Revolving Fund provides \$550.3 million of this amount with the General Fund providing \$62.4 million and various special funds providing the remainder. Personnel-years decrease by 5.9, or less than 1 percent. Highlights include:

- The budget proposes \$130.7 million for various stages of state office and facility construction projects.
- \$50.0 million to purchase natural gas for DGS customers and for DGS to pay its own natural gas costs increases.
- \$31.6 million from State Emergency Telephone Number Account to reimburse service providers for equipment and network costs associated with providing enhanced wireless service to wireless subscribers in California.
- \$6.4 million Service Revolving Fund to purchase low-emission and alternative fuel vehicles.
- \$3.0 million General Fund to continue the "one-stop" e-Business Center pilot project.
- \$3.2 million General Fund for the California Home Page network upgrade.

Department of Housing and Community Development

The budget proposes an increase of \$29.6 million, or 5.9 percent for a total of \$531 million and 496 personnel-years. The budget contains new funds to continue housing efforts commenced in the current year as well as to finance new initiatives. Highlights include:

- A \$200 million augmentation to the incentive grants awarded under the Jobs-Housing Balance Improvement Program to local governments that increase the level of housing permits. This amount is in addition to the \$100 million already budgeted.
- \$20 million (one-time) for Central Valley grants to provide infrastructure improvements in areas of economic development that have not kept pace with the rest of the state.
- \$9.6 million for the Office of Migrant Services to continue the reconstruction of migrant farmworker housing centers, infrastructure repairs at specified centers, on-going center operations, and playground equipment replacement.
- \$2.5 million (one-time) augmentation and \$1.5 million (one-time) redirection to consolidate four existing predevelopment loan programs into a single program.

The Department of Fair Employment and Housing

The DFEH budget is proposed to increase by \$363,000, or 1.6 percent, for total expenditures of \$22.4 million. This funding level includes a reduction of 22 positions, or 6.8 percent. Highlights include:

- \$225,000 General Fund to provide for education and outreach programs to small businesses, housing providers and traditionally under-served populations to increase awareness of the rights and remedies available to resolve employment and housing discrimination matters.
- \$151,000 and two personnel-years to assist the public in identifying unlawful restrictive covenants in documents or deeds related to common interest developments (Chapter 291, Statutes of 2000).

Consumer Affairs

The budget proposes \$374.5 million which is \$18.4 million or 5 percent more than the current year. Highlights include:

- The budget proposes \$1.4 million and seven personnel-years to establish the Office of Privacy Protection, as provided in Chapter 984, Statutes of 2000, to serve as a clearing house for privacy related consumer complaints.
- The budget proposes \$1.1 million and eight personnel-years to establish a two-year pilot project, pursuant to Chapter 867, Statutes of 2000, to inspect insured vehicles that have undergone auto body repair to identify work that was not done according to the repair invoice.

California Arts Council

The budget proposes \$74.6 million, which is \$6.5 million, or 8 percent less than the current year. Highlights include:

- The budget proposes \$6.3 million to increase funding for Arts in Education Program (\$3.0 million), the Organizational Support Program (\$1.5 million), the Public Art Program (\$500,000), and the Municipal Arts Program (\$1.0 million).
- The budget proposes \$20.4 million to establish a Cultural Infrastructure Development Fund for competitive grants to various museums, arts organizations, and special projects.

Office of Planning and Research

The budget proposes \$100.4 million which is \$48 million or 92 percent more than the current year. Highlights include:

- The budget proposes a one-time augmentation of \$40 million to establish a touch screen voting pilot project in three California counties (one large, one medium, and one small). OPR will administer the pilot project and local matching funds will be required on a dollar-for-dollar basis. *This project and its funding, while meritorious, is being budgeted in the **wrong department**. Clearly, the Secretary of State should take the lead in this matter.*

Local Government Relief

- The budget proposes \$250 million in one-time discretionary funding for local governments. These funds would be allocated 50-percent on a per-capita basis and 50-percent based on contributions to the Educational Revenue Augmentation Fund (ERAF). This is continuation of a one-time program in the current year.

Office of Emergency Services

The budget proposes \$716 million (\$90 million General Fund) for OES in 2001-02, which reflects a decrease of \$12.6 million, or 1.7 percent below the revised current year estimate. Although there is a decrease in appropriations in the Governor's Budget for OES, that number might increase due to deficiencies caused by responding to unanticipated natural disasters.

The major proposed increases are:

- \$11.4 million for emergency response and operations equipment, such as: 18 heavy rescue units outfitted with a complement of heavy rescue equipment, 12 water tender trucks specially designed to bring water for fire fighting purposes, and replace antiquated aluminum fire hose with large diameter fire hoses.
- \$6.8 million General Fund to operate and expand the Tri-Net Seismic Safety Network, which uses high-tech equipment, to provide seismic information following an earthquake in order to deploy emergency response personnel to those areas with the greatest seismic activity.

Food and Agriculture

The budget proposes \$251 million (\$99 million General Fund) for the Department in 2001-02, which reflects a decrease of \$4 million (\$3 million General Fund).

The major proposed increases are:

- \$12.6 million (\$2 million General Fund) to continue the Department's aggressive and comprehensive efforts to eradicate Pierce's Disease and its vectors.
- \$12.6 million General Fund to continue the comprehensive strategy to reduce the growing threat to California from invasive pests. This strategy would make permanent key components of the current statewide pest prevention program, the parcels inspection program, and the preventive release program.

Military Department

The budget proposes \$97.8 million (\$47.6 million General Fund and \$50.2 million in various special funds) for the Military Department in 2001-02, which reflects an increase of \$6.7 million over the current year. Additionally, the Military Department receives \$440 million in other federal funds for the support of the Army National Guard (\$300M), Air National Guard (\$138M), and the Office of the Adjutant General (\$2M).

The major proposed increases are:

- \$4.5 million for airfield maintenance and repair costs at the Joint Forces Training Base in the greater Los Angeles / Orange County area.
- \$2.5 million to perform priority maintenance and repairs at Camp San Luis Obispo.
- \$1.4 million to continue the operation of the 160 cadet Turning Point Academy in San Luis Obispo, increasing annual support to \$10.6 million.

Department of Industrial Relations

The budget proposes \$268 million (\$175 million General Fund, \$93 million special funds) for fiscal year 2001-02, which reflects an increase of \$8 million (\$6 million General Fund).

The major proposed increases are:

- \$1.7 million General Fund to increase outreach efforts to educate employers regarding labor laws.
- \$2.5 million General Fund to administer a workers' safety training program for employees in high hazard industries.

Department of Veterans Affairs

The budget proposes \$338 million (\$67 million General Fund, \$271 various special funds) for fiscal year 2001-02, which reflects a slight decrease of \$789,000. The major proposed increases are:

- \$77,000 General to provide a Homeless Veterans Advocate.

- **Yountville** -- \$100,000 General Fund (one-time) to redesign and add furnishings to common areas; and \$66,000 General Fund (one-time) for Americans with Disabilities Act modifications.
- **Chula Vista** -- \$346,000 General Fund to improve employee training; \$264,000 General Fund to implement a compensated work therapy program with the United States Department of Veterans Affairs ; and \$256,000 General Fund for quality assurance.

Infrastructure and Bond Debt Service

Background

The state owns a vast amount of infrastructure including nearly 2.5 million acres of land, 180 million square feet of building space and 15,000 miles of highways. California's infrastructure is aging and much of it is in need of repair and renovation. For example, about 55 million square feet (45 percent) of the total building space in the three public higher education segments in California was built or renovated before 1970. Also, most of the 9.5 million square feet of buildings in the state hospitals and developmental centers was built before 1960. In addition, a 1995 report indicated that almost one third of the state highway system was in critical need of corrective maintenance or rehabilitation. State infrastructure renovation needs have been exacerbated because of insufficient investments by the Administration in routine maintenance and repair of facilities. Consequently, even if infrastructure demand did not grow, there would still be a need to invest tens of billions of dollars over the next decade to renovate aging public infrastructure. The Department of Finance estimates statewide infrastructure needs at over \$82 billion over the next decade, however, existing funding sources for these needs fall billions of dollars short. Despite this urgent need for new financial resources, the 2001-02 budget submitted by Governor Davis does not include any new permanent commitment of state General Fund resources for the infrastructure needs of the state.

Republican 20/20 Plan for Infrastructure Investment

Joint Republican Caucus Priorities include an aggressive pay-as-you-go proposal known as 20/20 Vision. Under the Republican infrastructure plan, a stream of General Fund revenue would be permanently dedicated to meet the state's infrastructure needs. The 20/20 Vision plan dedicates \$127 billion over the next 20 years in pay-as-you-go funding for education, transportation, the environment and other public works projects without the need to incur any new debt. The plan achieves this goal by taking a small percentage of the growth in General Fund revenues each year until at least 5 percent of General Fund revenue growth is dedicated to the 20/20 Plan.

The 2001-02 Capital Outlay Budget

The Governor's 2001-02 Budget proposes \$1.9 billion in one-time capital outlay expenditures, exclusive of transportation, K-12 schools, and State conservancies. Of this amount, \$1.4 billion is for continuing phases of previously approved projects and \$445.9 million is for new projects. Funding for this program comes from a number of sources including general obligation bonds, lease revenue bonds, various special funds, federal funds and some General Fund. *There is no permanent commitment of General Fund resources to state infrastructure needs in this budget.*

Highlights of the 2001-02 capital outlay program contained in the proposed Budget are as follows:

- **Higher Education:** \$862.3 million which includes \$511.7 million for the University of California , \$207 million for the California State University , and \$143.6 million for the California Community Colleges from general obligation bonds and the General Fund.
- **Department of Mental Health:** \$352.5 million for various projects.
- **Department of Transportation:** \$150.9 million for various office construction projects.

- **Department of General Services:** \$130.7 million for various state office construction projects.
- **California Department of Corrections:** \$92.7 million for various projects around the state.
- **Department of Parks and Recreation:** \$68.2 million for various park improvement projects around the state.
- **Department of Forestry and Fire Protection:** \$61 million for various state projects.
- **Department of Water Resources:** \$31.9 million which includes \$23.3 million General Fund and \$8.6 million from local reimbursements for the continuing phases of 11 previously approved flood control projects.
- **Department of Youth Authority:** \$22.6 million which includes \$16.8 million for the continuing phases of 5 previously approved projects.
- **Department of Food and Agriculture:** \$21.9 million, which includes \$20.7 million to continue the replacement of three agricultural inspection stations.
- **Department of Justice:** \$15.9 million which includes \$933,000 to complete the Hawkins Data Center computer room fire suppression system and \$15 million to begin development of a new DNA laboratory.
- **California Conservation Corps:** \$12.1 million which includes \$11 million for two continuing projects.
- **California Science Center:** \$11.1 million. This includes \$10.5 million for the pre-construction phases of the Science Center Phase II "World of Ecology" project. The total project cost is estimated at \$110 million, of which approximately \$83.5 million is to be funded by private sources and other governmental agencies, and \$26.5 million is to be funded by State funds.
- **Department of Motor Vehicles:** \$10.1 million for various office upgrades.
- **California Highway Patrol:** \$9.7 million. This includes \$7.4 million for the continuing phases for the replacement of two area offices due to facility damage resulting from a fire and to address serious space deficiencies at another office. The Highway Patrol will use \$2.2 million to initiate the acquisition and planning phases for the construction of a new replacement facility at Santa Fe Springs and for preliminary plans to renovate the San Diego area office.
- **Department of Boating and Waterways:** \$8.5 million. This includes \$5 million for various phases of three Boating and Instruction Safety Centers and the construction phase of one Boating Facility renovation.
- **Department of Veterans Affairs:** \$5.4 million. This amount will fund major and minor projects at the Yountville Veterans' Home, including \$3.7 million for the continuing phases of previously approved projects.

- **Department of Fish and Game:** \$5.1 million. This amount includes \$3.5 million for two continuing major projects.
- **Military Department:** \$3.5 million. This amount includes \$294,000 for two continuing projects, \$1.7 million for three new projects.
- **Department of Health Services:** \$2.2 million. This amount is for the continuing phase of the previously approved project to construct a Phase III office building at the Richmond Laboratory Complex.
- **Air Resources Board:** \$2.2 million. This amount is for the construction phase to renovate the Board's mobile source research and development measurement laboratory.
- **Judicial Council:** \$2 million. This amount includes \$1.3 million for continuing projects and \$653,000 for renovation of the 2nd and 3rd Appellate District Courts of Appeal in Los Angeles and Sacramento, respectively, to accommodate newly created judgeships.
- **Office of Emergency Services:** \$1.3 million. This amount is for a fire and telecom shop at OES's Headquarters Facility.

Bond Debt Background

Over the last decade, the state has spent around 5 percent or less of its General Fund revenues on infrastructure projects. However, almost all of these expenditures have been for debt payments on previously issued bonds, with only a very small portion of these funds for pay-as-you-go spending on capital projects. For example, over the last five years, General Fund expenditures for debt payment on bonds totaled about \$11.5 billion while direct General Fund appropriations for capital outlay (pay-as-you-go) totaled only \$735 million. Over this five-year period, direct General Fund appropriations for capital outlay were 0.3 percent of total General Fund revenues while bond debt payments totaled 4.6 percent of revenues. Thus, outside the transportation area, the state devotes a minuscule amount to pay-as-you-go funding for infrastructure and is instead relying on bond authorizations, most of which first require approval by the electorate. Twice in the last eight years, voters denied proposals for higher education bond funds.

State Debt Position

A common measure of bonded indebtedness is the ratio of net tax-supported debt to General Fund revenues. Using this measure, California's General Fund debt ratio for 2000-01 is 3.7 percent and would rise to a maximum of 4.2 percent in 2002-03. California's General Fund debt ratio has declined since its peak of 5.4 percent in 1994-95 primarily because General Fund revenue has increased more rapidly than debt payments.

General Obligation Bonds

California currently owes \$19.3 billion in principal on outstanding non-self liquidating general obligation (GO) bonds as of the end of calendar year 2000. The State General Fund cost for the payment of interest and redemption on these bonds is \$2.3 billion in 2000-01 and is estimated at \$2.6 billion in 2001-02.

Lease-Revenue Bonds

The State also uses lease-revenue bonds to supplement the GO bond program. Outstanding lease-revenue bonds totaled \$6.6 billion as of December 1, 2000, and are estimated to total \$6.5 billion as of June 30, 2001, and \$7.1 billion as of June 30, 2002. The State General Fund cost for lease payments (principal and interest) was \$530.6 million in 1999-2000 and is estimated to be \$532.7 million in 2000-01 and \$532.4 million in 2001-02.

General Fund Expenditure Growth By Budget Category

2000 Budget Act Compared to 2001 Governor's Budget
(dollars in millions)

	<u>2000 Budget Act</u>	<u>2001-02 Gov. Budget</u>	<u>Over 2000 Budget Act Amount</u>	<u>Percent</u>
Leg., Judicial, Exec	\$2,616	\$2,654	\$38	2%
State and Consumers	533	646	113	21%
Bus., Trans. & Housing	2,586	1,870	-716	-28%
Trade and Commerce	109	101	-8	-7%
Resources	1,599	2,494	895	56%
Enviro. Protection	418	563	145	35%
Health & Human Svcs.	20,284	21,645	1,361	7%
Youth & Adult Corrections	5,179	5,389	210	4%
K-12 Education	30,603	32,540	1,937	6%
Higher Ed.	9,445	10,342	897	9%
General Government	5,444	4,609	-835	-15%
Total	\$78,816	\$82,853	\$4,037	5%

Joint Republican Caucus Proposals Compared to the Governor's Budget

General Fund
(\$ In millions)

JOINT REPUBLICAN PROPOSALS	AMOUNT	GOVERNOR'S BUDGET
Education		
K-12 School Construction (Non-98)	\$1,000	--
Community College 11% split	320	\$334
Scholarshare	8	--
Loaned Teachers Tax Credit	1	1
Public Safety		
Local Detention Facilities	400	--
Crime Labs	200	30
Technology Grants	100	75
Project Exile	10	--
Strengthening Local Government		
Streets and Roads	500	\$171
Preparing for California's Future		
20-20 Vision	1,000	--
Safety Net		
Access to Care-Medi-Cal Rates	430	64
Senior / Disabled Home Modification Loans	15	--
Investing in Working Families		
Gas Tax Moratorium	1,500	--
¼ cent Sales Tax Elimination	570	--
VLF Elimination	500	--
Dependent Tax Credit	500	--
Sr. Citizen Property Tax Assistance	154	--

JOINT REPUBLICAN PROPOSAL	AMOUNT	GOVERNOR'S BUDGET
Business Climate		
Increase Manufacturers Investment Credit to 8%	\$91	\$70
Carl Moyer Diesel Fuel Credit	50	100
Basic R&D Tax Credit– Federal Conformity	41	--
Expand MIC to extraction and Ag. equipment	36	--
Alt. R&D Tax Credit – Federal Conformity	26	--
Space Flight Equipment – Sales Tax exemption	14	3
Net Operating Loss – Federal Conformity	7	--
A Three-Percent Reserve	2,500	1,900
TOTALS	\$10,051	\$2,748

Final Tax Package-Budget Act of 2000

(\$'s in millions)

Provision	Bill	2000-01	2001-02	2002-03	2003-04
Long Term Care Credit	AB 511	-\$43	-\$38	-\$41	-\$44
Basic R&D Credit to 15%	AB 511	-\$16	-\$25	-\$31	-\$33
Graduate Student Expenses	AB 511	-\$9	-\$10	-\$10	-\$10
Land Donation Tax Credit	SB 1647	-\$10	-\$70	-\$20	\$0
Rural Investment	AB 511	-\$5	-\$5	-\$5	-\$5
Alternative R&D at 90%	AB 511	-\$4	-\$8	-\$9	-\$10
NOL	AB 511	-\$1	-\$5	-\$17	-\$33
Senior's Property Tax Assistance	SB 1664	-\$214	---	---	---
Child Care Tax Credit-Refundable	AB 480	-\$195	-\$189	-\$193	-\$197
Teacher Tax Credit	AB 2879	-\$218	-\$188	-\$202	-\$217
VLF Accelerate to 67.5% offset	AB 858	-\$887	-\$1,533	-\$693	-\$192
TOTALS:		-\$1,602	-\$2,071	-\$1,221	-\$741

Senate Republican Fiscal Office

Michael C. Genest, Staff Director
323-9221

<u>Assignment Area</u>	<u>Consultant</u>	<u>Phone</u>
Education	Roger Mackensen	324-5391
Public Safety & Judiciary	Dave Harper	323-8893
Transportation, Resources & Environment	Alex Alanis	324-5237
Health Services	Sharon Bishop	323-9221
Human Services	Therese Tran	324-5537
General Government/Local Government	Tom Sheehy	324-5226